



**Daikin Industries,Ltd.**

Q2 Financial Results Briefing for the Fiscal Year Ending March 2023

November 9, 2022

## Event Summary

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<b>[Company Name]</b>	Daikin Industries,Ltd.	
<b>[Company ID]</b>	6367-QCODE	
<b>[Event Language]</b>	JPN	
<b>[Event Type]</b>	Earnings Announcement	
<b>[Event Name]</b>	Q2 Financial Results Briefing for the Fiscal Year Ending March 2023	
<b>[Fiscal Period]</b>	FY2022 Q2	
<b>[Date]</b>	November 9, 2022	
<b>[Number of Pages]</b>	37	
<b>[Time]</b>	10:30 – 12:04 (Total: 94 minutes, Presentation: 37 minutes, Q&A: 57 minutes)	
<b>[Venue]</b>	Webcast	
<b>[Number of Speakers]</b>	6	
	Masanori Togawa	President and CEO, Member of the Board
	Yoshihiro Mineno	Member of the Board and Senior Executive Officer, Responsible for Global Operations Division
	Satoshi Funada	Senior Executive Officer, General Manager of Japanese AC Sales Division
	Yoshiyuki Hiraga	Executive Officer, Responsible for Chemicals Business
	Kota Miyazumi	Executive Officer, Responsible for Corporate Communication
	Kazuhiro Matoba	Head of Investor Relations Management Group, Corporate Communication Office
<b>[Analyst Names]*</b>	Tsubasa Sasaki	Mitsubishi UFJ Morgan Stanley Securities
	Yuichirio Isayama	Goldman Sachs
	Hikaru Mizuno	UBS Securities
	Kentaro Maekawa	Nomura Securities
	Tomohiko Sano	JPMorgan Securities
	Hirosuke Tai	Daiwa Securities

\*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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# Presentation

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**Sakamoto:** We would now like to begin the financial results briefing of Daikin Industries, Ltd. for H1 of the fiscal year ending March 31, 2023. Thank you for participating in today's briefing session.

The explanatory material is available on our website under investor relations, as announced in the email distributed today. Please have them on hand if you need them.

I would like to introduce today's speakers. Masanori Togawa, President and CEO, Member of the Board. Yoshihiro Mineno, Member of the Board and Senior Executive Officer, Responsible for Global Operations Division. Satoshi Funada, Senior Executive Officer, General Manager of Japanese AC Sales Division. Yoshiyuki Hiraga, Executive Officer, Responsible for Chemical Business. Kota Miyazumi, Executive Officer, Responsible for Corporate Communication.

I, Sakamoto of Corporate IR Group, will serve as moderator. Thank you.

Today, we would like to begin with a brief talk by Mr. Togawa, President, and then Mr. Miyazumi, Executive Officer, will give a brief overview of the financial results.

These will last about 40 minutes, followed by a question-and-answer session. The end time is scheduled to be 12:00 PM. Now, Mr. Togawa, please.

**Togawa:** Good morning, everyone. Thank you for the large number of people participating online today. We would also like to thank you again for your continued support of our business activities. Let me begin by saying a few words.

As announced yesterday, we achieved a record-high performance in both net sales and operating profit in H1 of the fiscal year, and also achieved an increase in both sales and profit in terms of actual performance excluding the effect of foreign exchange rates.

The annual plan has also been revised upward for the second time this fiscal year and is expected to further break the record high. With the uncertain outlook for the business environment in the current fiscal year, there were many possibilities for both upswings and downswings in business. We have envisioned multiple scenarios to deal with these issues, incorporated measures to withstand the negative aspects and to take advantage of the positive aspects for greater growth, and have responded quickly to changes in the situation, taking one preemptive step after another.

For H1 of the fiscal year, both net sales and operating profit exceeded the plan that was revised upward in August. Net sales exceeded JPY2 trillion for the first time in H1, and operating profit was JPY221.7 billion. Miyazumi will explain the details later.

Since Q2, the business environment has been changing rapidly, with accelerating global inflation and deteriorating demand due to the economic slowdown, as well as rising energy costs triggered by the situation in Russia and Ukraine.

Against this backdrop, the Company was able to significantly increase net sales due to the following factors. First, we increased sales of ducted unitary for houses in the US by strengthening the supply capacity of our Houston plant. Next, sales of environmental premium products, including inverter-equipped products, which we call FIT system, were strong. Sales of heat pump heaters in Europe were strong and expanded. Furthermore, we succeeded in expanding sales and increasing market share in Asia and Oceania. In addition, we thoroughly implemented selling price measures at all locations.

In China, sales have recovered to a level significantly higher than the previous year since June, thanks to the prompt full operation of production and logistics after the Shanghai lockdown was lifted.

The chemical business also saw significant sales growth in the robust semiconductor and automotive markets.

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In response to unprecedented cost increases, we were able to increase both sales and profit on a real basis, excluding exchange rates, by thoroughly implementing the eight key themes plus one theme, including global variable cost reductions and fixed cost reduction initiatives, in addition to selling price measures such as the prompt introduction of differentiated products.

For the annual plan, we have revised upward our sales forecast to JPY3,760 billion. For the full year, we plan to aim for a significant increase in profit, which will be the highest ever recorded, on an actual basis excluding foreign exchange rates.

Since H2, the business environment has been deteriorating rapidly in all regions, with rising energy costs, widespread cost increases due to inflation, and increasing risk of economic slowdown. However, we will continue to take the initiative in responding to changes and speedily take on challenges, such as additional measures to increase selling prices and cost reductions to strengthen profitability, strengthening sales and product competitiveness to increase market share, and business expansion by seizing opportunities to respond to environmental and energy-saving needs.

In the current fiscal year, we have established eight key themes plus one theme and have been working to expand our business performance and strengthen our structure since the beginning of the fiscal year. As I mentioned earlier, I believe that our strategic sales price measures, cost reductions, and efforts to strengthen sales and product competitiveness are steadily producing results, and we are feeling the positive effects of the measures we have been promoting.

In H2 and beyond, we will continue to complete these themes, and by taking one more additional step to deal with the current changes in the environment, we will achieve this year's plan without relying on foreign exchange.

For example, I would like to discuss strategic selling price measures. By increasing selling prices in line with the launch of new products and proposing services that utilize ventilation, sterilization, and IoT, we were able to achieve results as planned in all regions in H1, especially in the US and Japan. In H2 of the fiscal year and beyond, we plan to increase our share of sales through differentiated products such as environmental premium products in the US and inverter machines in Asia, as well as raise prices further under the situation of rising energy prices, component price hikes, and other cost-increasing factors becoming more apparent.

Regarding variable cost reduction, in H1, we concentrated on continuing production, securing parts, and developing alternatives due to the Shanghai lockdown. In H2 of the fiscal year and beyond, we will look ahead to the next fiscal year and implement themes to improve productivity and increase cost reductions in all regions, such as strengthening cost competitiveness of key components and expanding applicable products, accelerating global factory facility automation and material replacement initiatives, and promoting concurrent activities.

We will also make further efforts to enhance the profitability of the domestic air conditioning business by implementing additional cost measures to cope with the further depreciation of the yen and switching to domestic procurement of parts.

We will not only aim for short-term earnings growth but will also make a leap forward with an eye to next year and the year after that.

In the past month alone, the business environment has been changing by the minute. Risks such as a decrease in demand due to global inflation and cost increases due to the yen's depreciation are anticipated.

On the other hand, I believe that changes in the business environment are not only a risk for us, but also an opportunity to expand our business. We intend to take advantage of this opportunity to expand our business and strengthen our structure, not only by minimizing risk, but also by responding to change ahead of our rivals.

The need for environmental and energy-saving solutions against the backdrop of carbon neutrality and rising energy costs is increasing all over the world. To take advantage of this growing demand, we are also accelerating investments in production capacity expansion and research and development.

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For example, in terms of production capacity, new production plants are scheduled to be launched one after another in each region through 2024. In the heat pump heating business in Europe, in order to meet growing demand, we are expanding production capacity at existing plants in Belgium, the Czech Republic, and Germany, and are in the process of establishing a new plant in Poland, as well as a new R&D center specializing in heat pump heating in Gent, Belgium.

In ducted unitary for houses in the US, local production of the inverter-equipped FIT system just started in November. In addition to this, we will establish a local production base for energy-saving air conditioning equipment for the Americas in Mexico.

In Asia, the establishment of a new plant in India will double the current production capacity of room air conditioners. In the future, we would like to consider further expansion of production capacity with a view to supplying the African region.

In China, we will establish a new plant in Huizhou, Guangdong Province, mainly for residential multi-split air conditioners, to diversify production sites from the standpoint of risk diversification within China.

India is growing steadily despite the unstable global economy, and its population is expected to reach 1.4 billion by 2023, making it the largest in the world. The middle profit class is expanding, and the number of affluent households is also increasing. As a result, demand for air conditioning is also expected to grow significantly. We are trying to take a more expansionary path in India to meet this huge growth in demand for air conditioning. India truly has a wealth of resources especially in the IT field. We are in the process of finalizing a plan to make India a major base for global production, research, development, and parts supply by utilizing the abundant local resources.

With the growing need for energy conservation, it is becoming even more important to deploy a solution in addition to the capabilities of air conditioning equipment; Air conditioning and ventilation and sanitization. Through these efforts, we will strengthen market-specific and application-specific proposals, such as proposals for safe and secure spaces, development of new Airnet service systems such as remote monitoring, connected solutions that connect with customers, and the subscription models.

We are also accelerating our efforts to strengthen our advocacy activities in countries around the world and to fully develop our refrigerant gas recovery and recycling business.

As a specialized air conditioning manufacturer, we have long pursued environmental technologies such as inverters, heat pumps, and low-GWP refrigerants, and have developed globally differentiated products that take advantage of these environmental technologies.

In each region, rivals are also coming up with new strategies. In addition to our unique strengths, such as our business model of local production for local consumption and our practice of centripetal and centrifugal management, we will not only expand our business performance but also contribute to solving social issues through business development utilizing advanced environmental technologies.

Next year marks the start of the three-year second half of the Strategic Management Plan FUSION 25. We are currently reviewing the progress made over the past two years, and at the same time, we are considering themes to review and new themes to add in response to changes in the business environment. As for the quantitative targets, if we complete the plan for this fiscal year, we will already be one year ahead of the FY2023 target. We are currently in the process of internal discussions, including raising the target for the final year, FY2025, and will explain the situation to you again when we have a clear idea of what to do.

That's all the explanation I have for you. After Miyazumi explains, I would like to answer your questions.

**Sakamoto:** Next, Mr. Miyazumi will make a presentation.

**Miyazumi:** I am Miyazumi. I will give an overview of the H1 financial results in accordance with the materials at hand.

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**Daikin achieved record high results. Excluding the effect of the exchange rates, both revenue and profits increased.**

**The harsh business environment persists due to factors including soaring prices for raw materials and logistics, the Shanghai lockdown, and heightened geopolitical risks.**

**Daikin will offset these by accelerating implementation of the Eight Key Themes for FY2022 and responding flexibly to changes in the business situation.**

- ✓ In the Air Conditioning business, the Shanghai lockdown affected manufacturing and supply, mainly in China and Japan, but sales expanded in the Americas and Asia. Sales increased in Europe for heat pump hot water heaters, which enjoy strong demand.
- ✓ In the Chemicals business, we took advantage of the recovering demand in the semiconductor and automotive markets to increase both revenue and profits.

(billion yen)	FY2021	FY2022 H1		Y/Y
	H1 Results	Forecast (Aug.)	Results	
<b>Net sales</b>	1,558.9	1,810.0	<b>2,019.8</b>	130%
<b>Operating profit</b>	192.7	210.0	<b>221.7</b>	115%
(Percentage of profit to net sales)	(12.4%)	(11.6%)	<b>(11.0%)</b>	
<b>Ordinary profit</b>	196.8	213.0	<b>222.7</b>	113%
(Percentage of profit to net sales)	(12.6%)	(11.8%)	<b>(11.0%)</b>	
<b>Profit attributable to owners of parent</b>	139.1	142.0	<b>156.4</b>	112%
(Percentage of profit to net sales)	(8.9%)	(7.8%)	<b>(7.7%)</b>	

USD/JPY            ¥110  
 EUR/JPY            ¥131  
 RMB/JPY            ¥17.0

¥134  
 ¥139  
 ¥19.9

FX Effect (Y/Y)

On Sales            +185.0 billion yen  
 On Operating Profit    +18.0 billion yen

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Please refer to page three.

H1 of the fiscal year ending March 31, 2023, was the best ever for H1 of a fiscal year.

Although we were significantly impacted by the soaring raw materials market and logistics costs, as well as the Shanghai lockdown, we were able to offset the negative impacts by responding flexibly to changing conditions and accelerating the implementation of eight key themes, including strategic selling price measures and sales force enhancement.

The actual exchange rates were JPY134 to the US dollar, JPY139 to the euro, and JPY19.9 to the Chinese yuan. The impact of foreign exchange rates on net sales and operating profit was positive JPY185 billion and JPY18 billion, respectively.

Excluding the impact of foreign exchange rates, both sales and profit increased YoY.

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## (Reference) Eight Key Themes for FY2022

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- 1 . Formulate strategic selling price measures
- 2 . Further strengthen sales capabilities such as measures to reinforce commercial-use air conditioning
- 3 . Maximize reductions in variable costs
- 4 . Execute streamlining measures to offset higher logistics costs
- 5 . Streamline existing fixed costs
- 6 . Strengthen procurement and supply capabilities in anticipation of fiscal year 2023 and beyond
- 7 . Maximize profitability by accelerating F25 key themes
- 8 . Create results and maximize profitability for acquired companies and large-scale capital investments
  - + 1 . Capitalize on the changes occurring in the world by utilizing our strengths and taking on the challenge and innovation themes (such as carbon neutrality and digital) that will lead to our next great leap forward.

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Page four is a list of key themes to be addressed in FY2022.

This is for informational purposes only, so we omit the explanation.

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## Financial Results by Segments

(billion yen)		H1 Results		
		FY2021	FY2022	Y/Y
<b>Total</b>	<b>Sales</b>	1,558.9	<b>2,019.8</b>	130%
	<b>Operating profit</b> <small>(Percentage of profit to net sales)</small>	192.7 (12.4%)	<b>221.7</b> <b>(11.0%)</b>	115%
<b>Air Conditioning</b>	<b>Sales</b>	1,427.9	<b>1,854.2</b>	130%
	<b>Operating profit</b> <small>(Percentage of profit to net sales)</small>	174.1 (12.2%)	<b>192.9</b> <b>(10.4%)</b>	111%
<b>Chemicals</b>	<b>Sales</b>	101.9	<b>131.3</b>	129%
	<b>Operating profit</b> <small>(Percentage of profit to net sales)</small>	15.5 (15.2%)	<b>25.8</b> <b>(19.7%)</b>	167%
<b>Others</b>	<b>Sales</b>	29.1	<b>34.3</b>	118%
	<b>Operating profit</b> <small>(Percentage of profit to net sales)</small>	3.1 (10.7%)	<b>3.0</b> <b>(8.7%)</b>	95%

\*Air-Conditioning business includes filter, refrigerator and freezer businesses.

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Please refer to page five. The page shows the results by business segment.

The air conditioning business was affected by the Shanghai lockdown in terms of production and supply, not only in China but also in other regions. However, in addition to expanded sales in the Americas and Asia, sales of heat-pump type hot water heaters, for which demand was strong, increased in Europe.

In the chemicals business, both sales and profit increased due to solid demand in the semiconductor and automobile markets.

As for the impact of foreign exchange rates, the air conditioning business reported increases in net sales of JPY172.3 billion and in operating profit of JPY15.4 billion, while the chemicals business reported increases in net sales of JPY12.7 billion and in operating profit of JPY2.6 billion.

The status of each segment and the status of the air conditioning business by region will be explained later.

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## Profit and Loss Statement

(billion yen)	FY2021 H1	FY2022 H1	Impact on profitability	
	115	130		
<b>Net sales</b>	1,558.9	<b>2,019.8</b>	+460.9	
<b>Cost of sales</b>	1,010.4 (64.8%)	<b>1,341.2</b> (66.4%)	-330.8	
<b>Gross profit</b>	548.4 (35.2%)	<b>678.5</b> (33.6%)	+130.1	
<b>Selling general and administrative expenses</b>	355.7 (22.8%)	<b>456.9</b> (22.6%)	-101.2	
<b>Operating profit</b>	192.7 (12.4%)	<b>221.7</b> (11.0%)	+28.9	
<b>Non-operating gain or losses</b>	4.1	<b>1.0</b>	*1 -3.1	<b>*1 Changes in non-operating gains or losses</b>
<b>Ordinary profit</b>	196.8 (12.6%)	<b>222.7</b> (11.0%)	+25.8	Inflation accounting adjustment Adjustments due to the application of inflation accounting in Turkey
<b>Extraordinary gains or losses</b>	0.3	<b>6.6</b>	*2 +6.3	
<b>Profit before income taxes</b>	197.1 (12.6%)	<b>229.2</b> (11.3%)	+32.1	<b>*2 Changes in extraordinary gains or losses</b>
<b>Corporate taxes, etc.</b>	53.7	<b>68.3</b>	-14.6	Loss (gain) on valuation of investment securities +6.9 (0.2→7.1)
Tax burden ratio	27.2%	<b>29.8%</b>		
<b>Profit attributable to non-controlling interests</b>	4.3	<b>4.5</b>	-0.2	
<b>Profit attributable to owners of parent</b>	139.1 (8.9%)	<b>156.4</b> (7.7%)	+17.3	

( ) parentheses indicate percentage to net sales

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Page six shows the changes in major items in the consolidated profit and loss statement.

The SG&A-to-sales ratio was lowered from the previous year due to efficient management of general expenses while implementing upfront investments and other measures.

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## Balance Sheet

(billion yen)	2021/9E		2022/9E		Y/Y
Cash and cash equivalents		807.3		<b>707.2</b>	-100.1
Receivables	60 days	510.3	64 days	<b>712.3</b>	+202.0
Inventories	61 days	518.0	79 days	<b>875.5</b>	+357.4
Fixed assets		1,187.9		<b>1,516.8</b>	+328.8
Investment and others		220.2		<b>183.2</b>	-37.0
Others		174.5		<b>257.1</b>	+82.6
<b>Total Assets</b>		<b>3,418.2</b>		<b>4,252.0</b>	+833.8

	2021/9E	2022/9E	Y/Y
Trade payables	254.4	<b>367.3</b>	+112.8
Interest bearing	730.8	<b>799.8</b>	+69.0
(Interest-bearing ratio)	(21.4%)	<b>(18.8%)</b>	
Others	601.3	<b>800.5</b>	+199.2
<b>Total liabilities</b>	<b>1,586.6</b>	<b>1,967.6</b>	+381.0
Total equity	1,794.6	<b>2,239.2</b>	+444.6
(Equity ratio)	(52.5%)	<b>(52.7%)</b>	
Share Warrant	2.7	<b>3.2</b>	+0.5
Non-controlling interests	34.4	<b>42.0</b>	+7.6
<b>Total net assets</b>	<b>1,831.7</b>	<b>2,284.4</b>	+452.8
<b>Total liabilities and net assets</b>	<b>3,418.2</b>	<b>4,252.0</b>	+833.8

\*Breakdown of interest-bearing debt

	2021/9E	2022/9E	Y/Y
Short-term borrowings	46.3	<b>148.0</b>	+101.7
CP	0.0	<b>30.0</b>	+30.0
Bonds	130.0	<b>190.0</b>	+60.0
Long-term borrowings	468.7	<b>311.0</b>	-157.7
Lease debt	85.9	<b>120.8</b>	+35.0
<b>Total</b>	<b>730.8</b>	<b>799.8</b>	+69.0

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Please see page seven. It shows the main items on the consolidated balance sheet and the details of interest-bearing liabilities.

The longer inventory holding period is due to the fact that we are holding strategic inventory in preparation for future sales expansion, as well as securing parts in preparation for procurement difficulties in semiconductors and electronic components.

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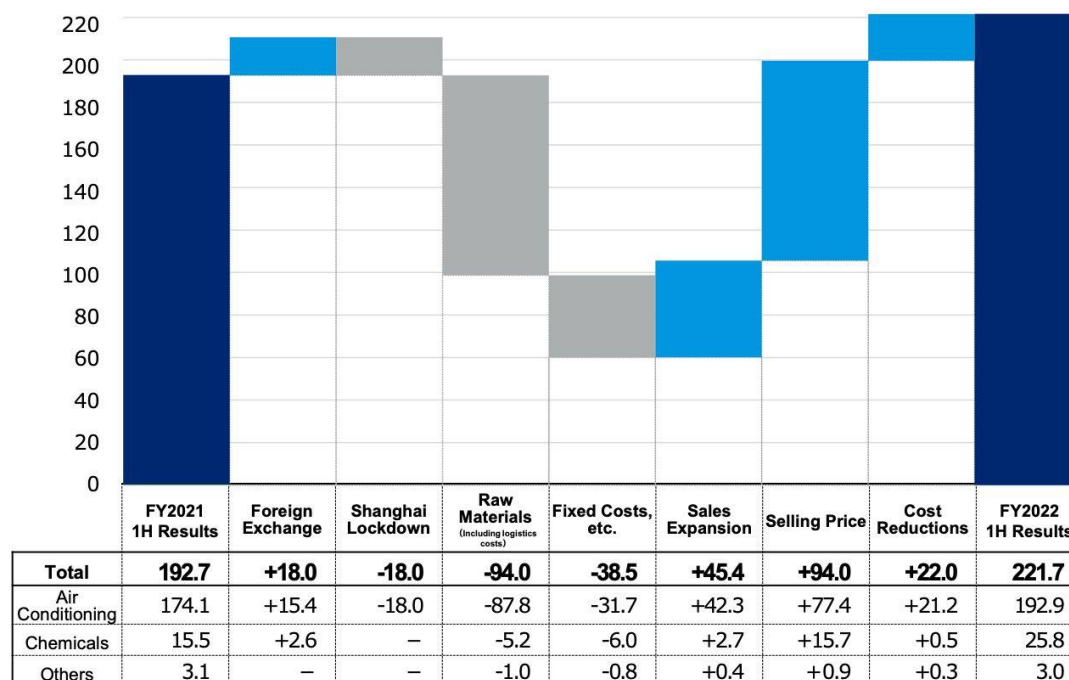
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## Breakdown of Changes in Operating Profit

(billion yen)



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Please refer to page eight. This is an analysis of the YoY increase/decrease in operating profit for H1.

Although we were significantly affected by soaring raw material market prices and logistics costs, as well as the Shanghai lockdown, we were able to offset the negative impacts through sales expansion, selling price measures, and cost reductions.

The breakdown of the impact on the air conditioning business due to soaring raw material market prices and distribution costs is as follows; JPY15 billion from copper, JPY10 billion from aluminum, JPY18 billion from steel, JPY20 billion from resins and others, and JPY25 billion from distribution costs.

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## II. Business Forecast for FY2022 Companywide Business Forecast

**This fiscal year has been upwardly revised twice with the aim of achieving record high results without depending on the positive effects of the exchange rates.**

- ✓ We will ensure budget achievement by rapidly addressing emerging risks (high global inflation, increasing energy costs, etc.) and improve our corporate structure.
- ✓ Even as the severity of the business environment increases, Daikin will minimize the negative effects of stagnant demand and increased costs by generating further results from key themes (strategic selling price measures, strengthening sales capabilities, cost reductions, etc.)
- ✓ Taking advantage of the challenges of the times as opportunities, we will further strengthen measures for the heat pump type hot water heater, Energy Service Solutions, and the IAQ and ventilation businesses.

	FY2021 Results			FY2022 Forecast (Aug.)	FY2022			
	H1	H2	Total	Total	H1 Results	H2 Forecast	Total Forecast	Y/Y
(billion yen)								
<b>Net sales</b>	1,558.9	1,550.2	3,109.1	3,480.0	2,019.8	1,740.2	3,760.0	121%
<b>Operating profit</b>	192.7	123.6	316.4	350.0	221.7	141.3	363.0	115%
(Percentage of profit to net sales)	(12.4%)	(8.0%)	(10.2%)	(10.1%)	(11.0%)	(8.1%)	(9.7%)	
<b>Ordinary profit</b>	196.8	130.6	327.5	355.0	222.7	135.3	358.0	109%
(Percentage of profit to net sales)	(12.6%)	(8.4%)	(10.5%)	(10.2%)	(11.0%)	(7.8%)	(9.5%)	
<b>Profit attributable to owners of parent</b>	139.1	78.6	217.7	230.0	156.4	78.6	235.0	108%
(Percentage of profit to net sales)	(8.9%)	(5.1%)	(7.0%)	(6.6%)	(7.7%)	(4.5%)	(6.3%)	
USD/JPY	¥110	¥115	¥112		¥134	¥125	¥129	
EUR/JPY	¥131	¥130	¥131		¥139	¥125	¥132	
RMB/JPY	¥17.0	¥18.0	¥17.5		¥19.9	¥18.0	¥18.9	

#### FX Effect (Y/Y)

On Sales	+205.0 billion yen
On Operating Profit	+18.0 billion yen

Please see page nine.

The forecast for operating profit has been revised upward for the second time this fiscal year, to JPY363 billion for the full year. Without relying on the positive effects of foreign exchange rates, we will strive to achieve record earnings.

With the exception of the US dollar, we have not revised our assumptions for exchange rates for H2 of the fiscal year, which were set at the beginning of the fiscal year. Reflecting the US dollar's independent appreciation, we have revised our assumption for the US dollar in the direction of a slight depreciation of the yen.

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## Business Forecast by Segments

(billion yen)		FY2021 Results	FY2022 Forecast (Aug.)	FY2022 Forecast (Nov.)			
				H1 Results	H2 Forecast	Total Forecast	Y/Y
<b>Total</b>	<b>Sales</b>	3,109.1	3,480.0	<b>2,019.8</b>	<b>1,740.2</b>	<b>3,760.0</b>	<b>121%</b>
	<b>Operating profit</b> (Percentage of profit to net sales)	316.4 (10.2%)	350.0 (10.1%)	<b>221.7</b> (11.0%)	<b>141.3</b> (8.1%)	<b>363.0</b> (9.7%)	<b>115%</b>
<b>Air Conditioning</b>	<b>Sales</b>	2,828.5	3,147.0	<b>1,854.2</b>	<b>1,564.8</b>	<b>3,420.0</b>	<b>121%</b>
	<b>Operating profit</b> (Percentage of profit to net sales)	282.4 (10.0%)	311.0 (9.9%)	<b>192.9</b> (10.4%)	<b>123.1</b> (7.9%)	<b>316.0</b> (9.2%)	<b>112%</b>
<b>Chemicals</b>	<b>Sales</b>	212.4	255.0	<b>131.3</b>	<b>128.7</b>	<b>260.0</b>	<b>122%</b>
	<b>Operating profit</b> (Percentage of profit to net sales)	27.3 (12.9%)	33.0 (12.9%)	<b>25.8</b> (19.7%)	<b>15.2</b> (11.8%)	<b>41.0</b> (15.8%)	<b>150%</b>
<b>Others</b>	<b>Sales</b>	68.2	78.0	<b>34.3</b>	<b>45.7</b>	<b>80.0</b>	<b>117%</b>
	<b>Operating profit</b> (Percentage of profit to net sales)	6.6 (9.7%)	6.0 (7.7%)	<b>3.0</b> (8.7%)	<b>3.0</b> (6.6%)	<b>6.0</b> (7.5%)	<b>90%</b>

10

Please refer to page 10. This is the forecast by segment.

In the air conditioning business, the sales forecast was increased by JPY273 billion from the previous announcement, and the operating profit forecast was increased by JPY5 billion.

In the chemicals business, we have increased our net sales forecast by JPY5 billion and our operating profit forecast by JPY8 billion from the previous announcement. In the others business, the sales forecast has been increased by JPY2 billion from the previous announcement, while the operating profit forecast remains unchanged.

As for the impact of foreign exchange rates, the forecast for the air conditioning business was revised upward by JPY191 billion on net sales and by JPY15.4 billion on operating profit, while the forecast for the chemicals business was revised upward by JPY14 billion on net sales and by JPY2.6 billion on operating profit.

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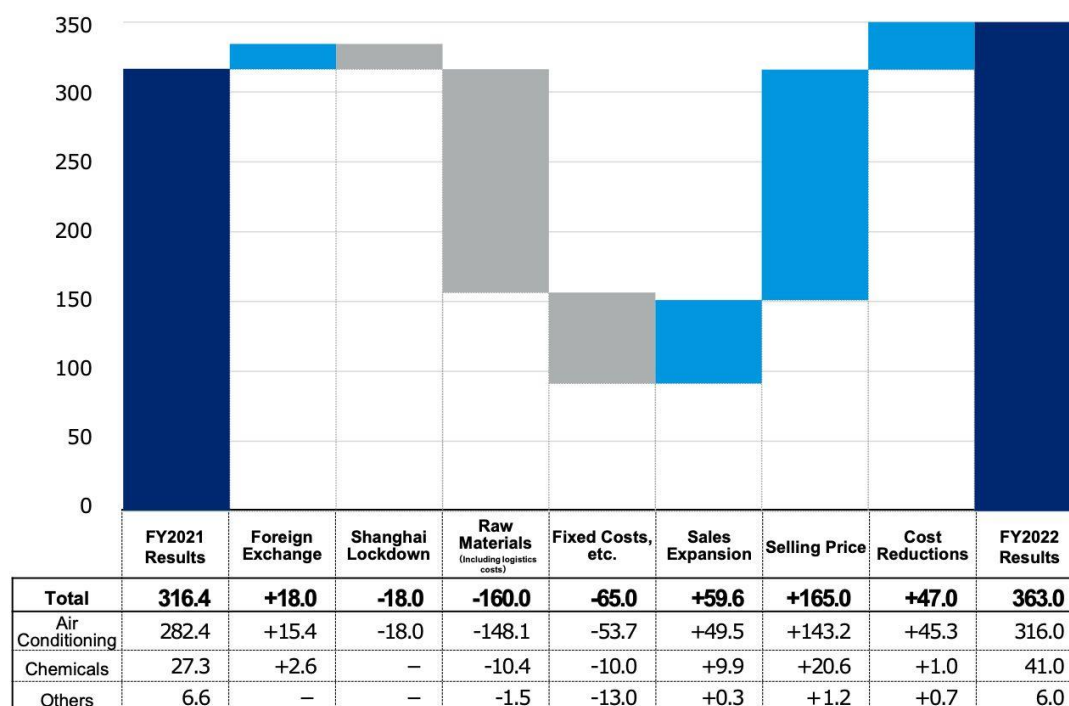
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## Breakdown of Changes in Operating Profit

### [Year-on-Year Comparison of Forecast]

(billion yen)



11

Please refer to page 11. This is an analysis of the YoY increase/decrease in operating profit for FY2022.

Cost increases in raw materials and logistics expenses are expected to further exceed the initial plan. Although market prices for copper and aluminum are softening, the negative effects of higher land freight costs for logistics and higher component prices by suppliers reflecting high resource and energy prices are significant.

In response to cost increase factors, we will strive to absorb the negative impacts by implementing sales price measures and cost reductions in addition to achieving the sales plan.

The breakdown of the impact on the air conditioning business due to soaring raw material market prices and distribution costs is as follows; JPY15 billion from copper, JPY10 billion from aluminum, JPY30 billion from steel, JPY53 billion from resins and others, and JPY40 billion from distribution costs.

We get questions all the time, so I will add a few more.

The impact of the sharp rise in raw material and logistics costs was a negative JPY94 billion in H1. The annual plan was initially assumed to have a negative impact of JPY150 billion, but this time we have revised the assumption to a negative impact of JPY160 billion.

Currently, we see a softening trend in the copper and aluminum markets.

Hedging has also been underway. We have already hedged 94% of our annual procurement volume for copper and 74% for aluminum for the current fiscal year.

Since copper and aluminum market prices remained high in H2 of last year, we expect the profit impact on a YoY basis to be neutral for H2 of this year. For the next fiscal year, we have hedged approximately 20% of the annual copper and aluminum.

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For the future, we would like to look at hedging opportunities in a timely manner. We are now thinking of USD7,500 per ton for copper and USD2,300 per ton for aluminum as target prices.

For steel, there is no major change from the forecast at the beginning of the period.

On the other hand, we see a negative impact on resin and other materials due to the significant impact of parts price hikes from suppliers. As for logistics costs, ocean freight rates are falling, but land transportation costs are rising, especially in the US, and we believe this will be a negative factor.

## Sales by Region - AC Business

\* Includes refrigerator, freezer and filter businesses

\*Percentage expresses year on year comparison

(billion yen)	FY2018 H1		FY2019 H1		FY2020 H1		FY2021 H1		FY2022 H1		FY2022 Forecast (Currently announced)		FY2022 Forecast (May)	
	YoY %	Value	YoY %	Value	YoY %	Value	YoY %	Value	YoY %	Value	YoY %	Value	YoY %	Value
<b>Japan</b>	108%	250.7	107%	268.7	93%	250.8	109%	272.8	<b>102%</b>	<b>279.2</b>	<b>105%</b>	<b>550.0</b>	105%	550.0
<b>Europe</b>	114%	166.6	113%	188.7	98%	185.7	139%	258.4	<b>118%</b>	<b>305.0</b>	<b>112%</b>	<b>580.0</b>	106%	550.0
<b>China</b>	107%	207.9	96%	199.4	91%	181.4	134%	243.2	<b>110%</b>	<b>266.4</b>	<b>108%</b>	<b>460.0</b>	106%	450.0
<b>Americas</b>	112%	341.4	108%	369.4	93%	343.9	129%	443.9	<b>155%</b>	<b>688.5</b>	<b>139%</b>	<b>1,240.0</b>	112%	1,000.0
<b>Asia</b>	111%	140.3	106%	148.7	76%	112.5	117%	131.3	<b>155%</b>	<b>203.9</b>	<b>129%</b>	<b>380.0</b>	109%	320.0
<b>Oceania</b>	113%	37.3	90%	33.7	106%	35.8	130%	46.7	<b>133%</b>	<b>61.9</b>	<b>115%</b>	<b>120.0</b>	101%	105.0
<b>Middle East</b>	95%	23.9	92%	22.0	84%	18.5	144%	26.6	<b>161%</b>	<b>42.9</b>	<b>129%</b>	<b>78.0</b>	99%	60.0
<b>Africa</b>	122%	4.3	86%	3.7	84%	3.2	157%	5.0	<b>132%</b>	<b>6.5</b>	<b>95%</b>	<b>12.0</b>	95%	12.0
<b>Total</b>	110%	1,172.4	105%	1,234.4	92%	1,131.7	126%	1,427.9	<b>130%</b>	<b>1,854.2</b>	<b>121%</b>	<b>3,420.0</b>	108%	3,047.0
<b>Overseas Sales ratio</b>	79%		78%		78%		81%		<b>81%</b>		<b>84%</b>		82%	
USD/JPY	¥110		¥109		¥107		¥110		<b>¥134</b>		<b>¥129</b>		¥116	
EUR/JPY	¥130		¥121		¥121		¥131		<b>¥139</b>		<b>¥132</b>		¥126	
RMB/JPY	¥16.8		¥15.7		¥15.3		¥17.0		<b>¥19.9</b>		<b>¥18.9</b>		¥18.3	

12

Please refer to page 12. Sales by region in the air conditioning business were significantly higher than the previous year in all regions. Excluding the impact of foreign exchange rates, actual sales was 111% in Europe, 94% in China, 127% in the Americas, and 138% in Asia of the previous year's level.

The annual plan for FY2022 is as shown.

Excluding the impact of foreign exchange rates, actual sales are planned to be 111% in Europe, 100% in China, 121% in the Americas, and 123% in Asia of the previous year's level.

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## Sales by Region - Chemicals Business

\*Percentage expresses year on year comparison

(billion yen)	FY2018 H1		FY2019 H1		FY2020 H1		FY2021 H1		FY2022 H1		FY2022 Forecast (Currently announced)		FY2022 Forecast (May)	
	<b>Japan</b>	115%	26.6	98%	26.2	72%	18.8	145%	27.2	<b>127%</b>	<b>34.6</b>	<b>120%</b>	<b>70.0</b>	116%
<b>Americas</b>	114%	23.4	91%	21.3	76%	16.1	124%	20.0	<b>142%</b>	<b>28.5</b>	<b>141%</b>	<b>58.0</b>	131%	54.0
<b>China</b>	107%	19.6	92%	17.9	109%	19.6	128%	25.0	<b>119%</b>	<b>29.7</b>	<b>113%</b>	<b>58.0</b>	119%	61.0
<b>Asia</b>	120%	12.6	91%	11.4	88%	10.0	126%	12.6	<b>137%</b>	<b>17.2</b>	<b>133%</b>	<b>36.0</b>	133%	36.0
<b>Europe</b>	135%	18.2	68%	12.3	79%	9.7	170%	16.6	<b>125%</b>	<b>20.6</b>	<b>110%</b>	<b>37.0</b>	107%	36.0
<b>Others</b>	135%	0.9	93%	0.8	49%	0.4	143%	0.6	<b>115%</b>	<b>0.6</b>	<b>91%</b>	<b>1.0</b>	-	-
<b>Total</b>	<b>117%</b>	<b>101.2</b>	<b>89%</b>	<b>90.0</b>	<b>83%</b>	<b>74.6</b>	<b>136%</b>	<b>101.9</b>	<b>129%</b>	<b>131.3</b>	<b>122%</b>	<b>260.0</b>	<b>120%</b>	<b>255.0</b>
<b>Overseas sales ratio</b>	74%		71%		75%		73%		<b>73%</b>		<b>73%</b>		73%	
<b>USD/JPY</b>	¥110		¥109		¥107		¥110		<b>¥134</b>		<b>¥129</b>		¥116	
<b>EUR/JPY</b>	¥130		¥121		¥121		¥131		<b>¥139</b>		<b>¥132</b>		¥126	
<b>RMB/JPY</b>	¥16.8		¥15.7		¥15.3		¥17.0		<b>¥19.9</b>		<b>¥18.9</b>		¥18.3	

13

Please refer to page 13.

Sales by region in the chemicals business increased significantly over the previous year in all regions. Excluding the impact of foreign exchange rates, actual sales were 117% in the Americas, 102% in China, and 117% in Europe of the previous year's level.

The annual plan for FY2022 is as shown.

Excluding the impact of foreign exchange rates, actual sales are planned to be 122% in the Americas, 105% in China, and 96% in Europe of the previous year's level.

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**First Half Overall**

Both Residential and Commercial air conditioning markets saw stagnant demand due to supply shortages from the Shanghai lockdown, lower consumption because of soaring prices, and construction delays from material shortages. In addition to doing our best to maintain supply capacity, we also worked to ensure sales by incorporating the selling price effect.

- ✓ For Residential, we strengthened sales of differentiated products that includes **Urusara X**, which switches between air supply and ventilation. By capitalizing on the growing interest in energy savings and air quality (IAQ) needs, we increased market share.  
For air purifiers, demand is originating from the COVID-19 pandemic has begun to wane.
- ✓ For Commercial, we focused on system proposals that combine **SKY/VRV**, which feature improved ease of installation, with ventilation and purification products such as heat reclamation ventilators and **UV Streamer** units. In Applied, sales improved for environmentally conscious equipment such as R32 chillers.

**Second Half Measures**

For Residential, in addition to high energy efficiency, we will expand sales of high value-added products featuring ventilation and air cleaning functions along with stylish designs. We will bolster sales activities in cold regions in anticipation of firm demand and aim to further increase market share. For Air Purifiers, we will enlarge the lineup of models equipped with UV Streamer, which improves the suppression of viruses and bacteria.

For Commercial, Daikin is accelerating new dealer development, strengthening proposal sales for energy-saving and ventilation products, and building a subscription business model that proposes air conditioners at a fixed price.

Y/Y change (Volume basis)		H1 Results	Full-Year Forecast
Residential	Market	96%	95%
	Daikin	104%	102%
Commercial	Market	98%	98%
	Daikin	97%	98%
Applied	Market	104%	102%
	Daikin	117%	117%

\*Applied is based on total sales.

14

Please refer to page 14. I will now explain the status of the AC business by region.

First, Japan. Demand for both residential and commercial air conditioning was sluggish due to supply shortages caused by the Shanghai lockdown, consumption restraint caused by soaring prices, and construction schedule delays caused by a shortage of materials.

In addition to our efforts to maintain supply capacity, we also incorporated the effects of selling price measures to secure sales.

In the residential market, we strengthened our sales activities of products with the ventilation function of Urusara X and expanded our market share by capturing the growing interest in energy conservation and air quality due to the longer time spent in rooms.

In the commercial market, we focused on sales proposals that combine air-conditioning and ventilation products.

Although demand is expected to remain sluggish in H2 of the fiscal year, we will strive to build a new subscription-type business model in addition to strengthening sales of differentiated products that pursue energy-saving and ventilation functions.

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## AC Business - Americas

### First Half Overall

In the harsh business environment including record high inflation, tight parts supply, and labor shortages, we worked to provide a stable supply of products, and sales trended favorably. Sales greatly exceeded the previous year due to the steady implementation of selling price measures.

- ✓ In Ducted Unitary for Houses, sales and market share increased by enhancing the supply capacity of the Houston factory in addition to expanding products equipped with inverters.
- ✓ In Ductless, we worked to improve supply capacity for **RA/SKY** and increased market share. Sales for **VRV systems** greatly expanded by strengthening the sales network of acquired sales companies.
- ✓ In Applied, in addition to the effect of the new consolidation of sales companies, sales expanded in the After Sales Service business.

### Second Half Measures

In Ducted Unitary for Houses, local production will begin in November for the **FIT system**, a high value-added product equipped with an inverter, and we will accelerate market creation of premium environmental products.

In Ductless, we will improve the supply system for **RA/SKY**, where demand is expanding. In **VRV systems**, we will launch a new product that raises energy efficiency.

In Applied, we will work to expand equipment sales to data centers, factories, and schools where demand is strong, and grow our Solutions business by increasing the number of service employees and enlarging our After Sales Service network.

Y/Y change (Volume basis)		H1	Full-Year Forecast	
		Results	Market	Daikin
Ducted Unitary for houses		<b>106%</b>	95%	110%
Ductless	RA/SKY	<b>99%</b>	109%	116%
	VRV	<b>111%</b>	108%	116%
Applied		<b>123%</b>	108%	129%

\*Applied is based on total sales in local currency.

15

Please refer to page 15.

In the Americas AC business, sales remained strong due to efforts to ensure a stable supply of products amid a challenging business environment characterized by record inflation and tight supply due to parts shortages. The profitability of the business has been improving due to the steady implementation of sales price measures.

In ducted unitary for houses, we expanded sales and increased market share by strengthening sales of products equipped with inverters and by enhancing the supply capacity of the Houston plant.

Ductless has greatly expanded sales of VRV systems by utilizing the sales network of the acquired company.

Sales of Daikin Comfort Technologies North America (former Goodman) were 129% of the previous year's level on a local currency basis.

In H2 of the fiscal year, we will accelerate the creation of a market for environmental premium products with the start of local production of FIT system, a high value-added product equipped with an inverter, in November, and expand our solutions business by increasing service personnel and expanding our service network.

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### First Half Overall

Because Shanghai is the center for our production bases, production and logistics were suspended in April and May during the lockdown, and this resulted in product supply delays and a decline in sales. When the lockdown was lifted in June, production and logistics quickly returned to full operation, and sales from June greatly exceeded those of the previous fiscal year. This led to a sales recovery in which sales for the first half were on par with the previous year. While operating profit suffered under soaring raw material prices and semiconductor shortages, we have maintained a high profit level until now through sales expansion of high value-added products, cost reductions, and suppression of fixed costs.

- ✓ For the Residential market, we accelerated sales activities that combine online sales with our **PROSHOP** specialty stores, focused on identifying new customers, especially in the residential multi-split air conditioner segment, and obtained replacement demand. During the lockdown, in addition to promoting sales and contracts, we provided online support for after sales service and maintained sales capabilities. Due to increased customer interest in IAQ and environment, we expanded the product lineup for system products relating to IAQ, ventilation, energy visualization, and heat pump hot water heaters.
- ✓ In the Commercial market, customer contact points were expanded by capitalizing on interest at stores and offices in ventilation and air purification. We incorporated demand for equipment replacements and additional purchases. For large projects, we reinforced proposals with air visualization and energy solutions. For factories, we gained replacement demand with energy-saving proposals utilizing energy visualization.
- ✓ In the Applied market, in addition to shifting resources to growth fields that include infrastructure and semiconductors, we strengthened our maintenance and servicing business.

### Second Half Measures

In the slow economic recovery, we will leverage our forte in direct sales to users to promote meticulous sales activities for each customer. We aim for sales to surpass the strong performance of the previous fiscal year.

- ✓ For the Residential market, we will expand the lineup of system products (air conditioning, IAQ, heating, IoT, etc.) and strengthen sales activities that combine offline and online.
- ✓ For the Commercial market, we will accelerate the development of a Solutions business for each market and customer. We intend to capture the expansion of the heat pump market for carbon neutrality and the rising demand for energy management.

YY change (Local currency basis)	H1	Full-Year Forecast	
	Results	Market	Daikin
Residential	<b>96%</b>	90%	100%
Commercial	<b>94%</b>	95%	101%
Applied	<b>101%</b>	100%	101%

16

Please refer to page 16.

In the China AC business, production and logistics were suspended in April and May due to the Shanghai lockdown, resulting in a significant decline in sales. However, production and logistics were quickly restored after the lockdown was lifted, and sales from June onward were significantly higher than the previous year.

Despite the effects of soaring raw material market prices and the shortage of semiconductors, operating profit remained at a high level due to efforts to expand sales of high value-added products, cost reductions, and fixed cost reductions.

In the residential market, we accelerated our combined PROSHOP specialty stores and online sales activities, focusing on seeking new customers and capturing renewal demand. Although residential multi-split air conditioner sales fell sharply in Q1 due to the significant impact of the lockdown, they recovered from June onward, reaching 97% YoY in H1 year-to-date period.

Amid the slow economic recovery, we will continue to focus on expanding sales of residential multi-split air conditioners in H2, taking advantage of our strength in direct sales to users. At the same time, by expanding our lineup of products and services to meet the growing interest in air quality and energy management, we aim to provide optimal solutions for each market and customer, and to increase sales over the previous year, which were strong.

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## AC Business - Europe, Middle East, and Africa

### First Half Overall

The business environment has been difficult from the tight supply due to Shanghai lockdown, disruptions in logistics networks, and soaring energy costs. Daikin continued to maintain supply that integrated manufacturing and sales and focused on expanding sales of heat pump hot water heaters. Capitalizing on a selling price effect, sales for the region overall exceeded the previous fiscal year.

- ✓ In the Residential market, sales declined in France due to sluggish demand, whereas sales increased in Italy and Spain as the result of a heat wave.
- ✓ In the Commercial market, 'spec-in' activities and delivery follow-up were thoroughly implemented.
- ✓ In the Heating business, we greatly expanded sales in each country centered on Italy, France, and Germany amid the steady demand for heat pump hot water heaters. Daikin decided to increase capacity at existing factories and build a new factory to bolster supply capabilities.
- ✓ In the Applied market, sales of air handling units expanded for large projects including factories and hospitals.
- ✓ In the Freezer and Refrigerator business, a parts shortage from logistics disruptions impacted production, and sales declined.

### Second Half Measures

In Residential, we will strengthen sales activities in each country to expand sales of high value-added products that feature energy savings and heating functions.

In Commercial, we will strengthen proposal sales to hotels and restaurants from the perspective of the environment and energy savings and capture replacement demand.

In the Heating business, we will further capture demand for heat pump heating and increase market share to achieve decarbonization.

In Applied, we will widen the R32 chiller lineup.

In the Freezer and Refrigerator business, we intend to expand sales to food retailers.

Y/Y change (Volume basis)		H1 Results	Full-Year Forecast	
			Market	Daikin
Residential		101%	102%	104%
Commercial	SKY	101%	102%	103%
	VRV	96%	108%	107%
Heat-pump Heaters		145%	133%	155%
Applied		118%	104%	115%
Freezer and Refrigerator		94%	109%	105%

\*Residential, commercial, and heat-pump heaters are only for Europe.

\*Applied is based on total sales in local currency.

17

Please refer to page 17.

In the Europe, Middle East, and Africa AC business, while the business environment remained challenging due to soaring energy and logistics costs and tight supply caused by the Shanghai lockdown, overall sales in the region significantly exceeded the previous year's level due to the sales price effect, in addition to efforts to strengthen supply capabilities through integrated production and sales efforts.

In the heating business, sales grew significantly in each country by expanding product lineups and strengthening services, as strong demand for heat-pump hot-water heaters continued amid growing carbon-neutral and energy-saving needs. To further strengthen our supply capacity, we have decided to construct a new plant in Poland in addition to increasing the capacity of our existing plant.

In H2 of the fiscal year, we will continue to expand sales in markets where demand is strong for both residential and commercial use with a focus on the environment and energy saving, and we aim to further expand sales and increase market share by capturing the growing demand for heat pump heating for decarbonization.

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### First Half Overall

Demand for both Residential and Commercial recovered from an easing in behavior restrictions from COVID-19. We enlarged our unique sales network and strengthened sales activities utilizing online tools. In addition to sales expansion in major countries, there was a selling price effect, and sales for the region overall greatly exceeded the previous fiscal year.

- ✓ In the Residential market, sales significantly grew in India by strengthening dealer relationships and capitalizing on demand from a heat wave. Sales expanded for Malaysia and Australia, whereas unseasonable weather impacted sales in Thailand.
- ✓ In the Commercial market, delays and postponements in the start of construction work continued due to material shortages and insufficient workers at the building sites, but we were able to expand sales by providing detailed support to dealers and steadily capitalizing on demand from a recovery.
- ✓ In the Applied market, sales expanded by concentrating on the After Sales Service business including maintenance and servicing.

### Second Half Measures

In Residential, we will launch inverter air conditioners that greatly excel in cost competitiveness and promote their widespread use with a focus on markets such as Malaysia and Indonesia where inverter AC penetration is low.

In Commercial, we will focus on sales to hospitals, schools, and hotels, where growth is expected because of the COVID-19 pandemic, while strengthening proposals for high value-added solutions such as energy savings, IAQ, and maintenance.

In Applied, we will focus on sales to public facilities, which is a growth field, and aim for sales growth by expanding our service network and enhancing product appeal.

Year-on-year sales of main countries (local currency basis)  
 Australia: 118%, India: 139%, Vietnam 132%  
 Malaysia: 164%, Thailand: 115%, Indonesia: 108%

Y/Y change (Volume basis)	H1 Results	Full-Year Forecast	
		Market	Daikin
Residential	117%	109%	111%
Commercial	SKY	134%	115%
	VRV	134%	119%
Applied	147%	76%	126%

\*Applied is based on total sales in local currency.

18

Please look at page 18.

In the Asia and Oceania AC business, overall sales in the region were significantly higher than the previous year, thanks to sales expansion in major countries amid a recovery in demand due to the easing of action restrictions caused by COVID-19, as well as the effect of selling prices.

Sales of products for residential use increased significantly due to the utilization of an online sales management system connecting 10,000 dealers in India and efforts to increase demand against the backdrop of a heat wave, although sales were affected by unseasonable weather in Thailand.

Sales of products for commercial expanded as construction delays and extended construction periods continued due to a shortage of materials and laborers at construction sites, but through meticulous support to dealers, the Company ensured that the recovering demand was translated into orders.

In H2 of the fiscal year, we will continue to identify markets where demand is expected to recover and accelerate the spread of cost-competitive inverter units for residential use and solution proposals for commercial use.

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## Chemicals Business

### First Half Overall

Sales expanded mainly in the semiconductor and automotive markets, and sales greatly exceeded the previous fiscal year because of the effect of selling price measures.

- ✓ Fluorocarbon Gas
  - Sales for fluorocarbon gas expanded in Europe and Japan by capitalizing on steady demand.
- ✓ Polymers and Fluoroelastomers
  - Fluoropolymers showed a sales increase in the semiconductor and automotive markets along with the information and communications technology market, which includes LAN cables. Sales in all regions outperformed results from the previous fiscal year.
  - Fluoroelastomers saw sales growth for the automotive markets where demand is favorable. Sales in all regions significantly exceeded the previous fiscal year.
- ✓ Fine Chemicals, etc.
  - Sales for water and oil repellents agents grew in textile and paper applications in China and the Americas.
  - Sales for etching gas expanded mainly in Japan and Asia by capitalizing on steady demand in the semiconductor market.
  - Sales for anti-smudge surface coating agents expanded in Japan and the Americas.

### Second Half Measures

We aim to continue expanding sales and increasing market share by launching differentiated products and strengthening supply capabilities centered on the semiconductor / information and communication technology markets where demand is expected to remain strong.

In response to high demand for environmentally conscious products such as EVs, we will expand binder sales for lithium-ion batteries.

Not only fluorine, but application development will also be strengthened for non-fluorine materials.

Y/Y change (Sales basis)	H1	Full-Year Forecast	
	Results	Market	Daikin
For all fluorochemical products	<b>129%</b>	118%	122%
Fluorocarbon Gas	<b>167%</b>	114%	125%
Polymers & Fluoroelastomers	<b>133%</b>	122%	125%
Fine Chemicals, etc.	<b>112%</b>	112%	114%

19

Please refer to page 19.

In the chemical business, sales were significantly higher than the previous year due to sales expansion mainly in the semiconductor and automotive markets, as well as the effect of selling prices.

Gas sales expanded mainly in Europe and Japan on the back of strong demand.

Sales of resins expanded for the semiconductor, automotive, and information and telecommunications markets. Sales of rubber also increased for the automotive market, and sales in each region exceeded the previous year's level.

In chemical products, sales of water and oil repellants for textile and paper applications and etching gases increased.

In H2 of the fiscal year, we will focus on sales to the semiconductor and information and telecommunications markets, where demand is expected to remain strong, and aim to expand sales of binders for lithium-ion batteries to meet the growing demand for environmentally friendly products such as EVs.

We will also accelerate the development of applications not only for fluorine but also for non-fluorine materials.

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## Filter Business

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### First Half Overall

As demand gradually recovered with the resumption of economic activities, we promoted construction of a stable supply system, total cost reductions, and sales of high value-added products that pursue measures for control of infectious diseases and air quality improvements.

Sales exceeded the previous year.

- ✓ In the Air Filter segment, sales for both residential and commercial air filters expanded in the Americas, and in Asia and Japan, sales grew in the semiconductor and electric components markets. In Europe, sales are strong for high-performance filters in response to the growing needs for energy savings and air quality.
- ✓ In P&I\*, we focused on dust collecting equipment in Europe where demand remains strong despite sluggish capital investment due to soaring crude oil and gas prices.

### Second Half Measures

In the Air Filter segment, we will work to expand sales in each region in markets with high demand, such as for cleanrooms at semiconductor and pharmaceutical factories, and focus on improving productivity and conducting cost reductions.

In P&I, we aim to improve profitability by strengthening the After Sales Service business and reducing fixed costs as we work to build a stable business foundation.

\*P&I: commercial-use dust collection systems such as for gas turbines and large-scale plants

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Please refer to page 20.

In the filter business, we are accelerating the improvement of our business structure, and are working to build a stable supply system, reduce total costs, and strengthen our sales structure. In addition, sales of anti-infection products, such as high-performance filters, increased in each region in response to growing needs for energy conservation and air quality. As a result, net sales increased from the previous year.

In H2 of the fiscal year, we will continue to aim to expand sales to hospitals, semiconductor plants, and pharmaceutical plants, where demand is strong.

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## Other Businesses

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### First Half Overall

In the Oil Hydraulics business, sales increased by capitalizing on a steady recovery in demand for hydraulic equipment for industrial and construction equipment.

In the Defense Systems business, demand has run its course for pulse oximeters, which measure blood oxygen saturation, and oxygen concentrators. Nevertheless, sales were on par with the previous year.

In the Electronics business, sales of CG production software decreased, but year-on-year sales remained largely unchanged since an increase in corporate IT investment led to strong demand for database systems in the design and development fields.

### Second Half Measures

In the Oil Hydraulics business, we will strengthen 'spec-in' activities for industrial and construction equipment manufacturers. We will also work to build a business foundation in the European market that takes advantage of the Diplomatic MS acquisition in Italy and leads to environmental contribution and business expansion in the field of industrial equipment.

In the Defense Systems business, we will strengthen sales of differentiated products in anticipation of a winding down in demand for medical equipment aimed at COVID-19 and work to increase market share.

In the Electronics business, we will endeavor to expand sales in the manufacturing and construction industries where demand is expected to be strong.

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Please refer to page 21.

In the oil hydraulics business, demand for hydraulic equipment for both industrial and construction machinery applications recovered, and sales increased.

In the defense systems business, demand for pulse oximeters, which can measure oxygen saturation in blood without drawing blood, and oxygen concentrators ran their course and remained flat YoY.

In the electronics business, sales of computer graphics production software declined, but results were on a par with the previous year, reflecting firm demand from the manufacturing sector due to strengthened IT investments.

In H2 of the fiscal year, each business will continue to meet customer needs and expand sales in markets where demand is strong.

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## IV. Dividends Plan

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Daikin plans an annual dividend of 220 yen (interim 100 yen and term-end 120 yen.)

### 【Daikin Dividend Policy】

Together with making every effort to maintain a ratio of dividends to shareholder equity (DOE) of 3.0% based on the principle of always providing stable dividends to shareholders, we will continue striving in our mission to provide shareholders with even greater return by aiming for an increasingly higher level of dividend payout ratio.

		FY2018	FY2019	FY2020	FY2021	FY2022 (Forecast)
Dividend per share	Interim	¥70	¥80	¥80	¥90	¥100
	Annual	¥160	¥160	¥160	¥200	¥220
Earning per share	H1	¥385.8	¥405.1	¥289.2	¥475.3	¥534.3
	Annual	¥646.4	¥583.6	¥478.5	¥743.9	¥802.9
(Reference) DOE Trend		3.4%	3.3%	3.0%	3.2%	3.0%

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Please refer to page 22.

The year-end dividend forecast has been increased by JPY20 from the previous forecast to JPY120. As a result, the annual dividend for the current fiscal year will be JPY220, an increase of JPY20 from the previous fiscal year.

There is no change in the dividend policy.

We will continue to make efforts to further enhance shareholder returns based on the principle of stable and continuous dividend payments.

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### Exchange Rate

	FY2021 Results			FY2022		
	H1	H2	Total	H1 Results	H2 Forecast	Total Forecast
USD	¥110	¥115	¥112	¥134	¥125	¥129
EUR	¥131	¥130	¥131	¥139	¥125	¥132
RMB	¥17.0	¥18.0	¥17.5	¥19.9	¥18.0	¥18.9
THB	¥3.4	¥3.5	¥3.4	¥3.8	¥3.4	¥3.6
AUD	¥83	¥83	¥83	¥94	¥83	¥88

### Sensitivity of Foreign Exchange (Impact of change by 1 yen to operating profit)

	FY2022 Forecast
USD	1.8 billion yen *
EUR	0.8 billion yen

\*Changes for the THB, RMB, AUD, etc., are assumed to be linked to the USD.

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Please refer to page 23.

The actual exchange rates for H1 of FY2022 and the assumed rates for H2 of FY2022 are as stated.

Regarding sensitivity of foreign exchange, we estimate that a change of JPY1 against the US dollar will have an impact of JPY1.8 billion on operating profit, and a change of JPY1 against the euro will have an impact of JPY800 million.

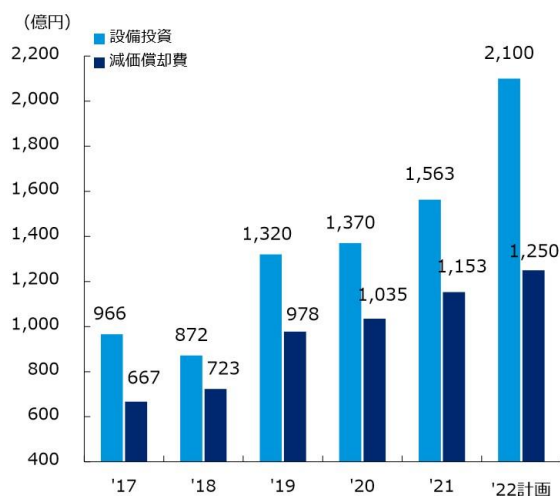
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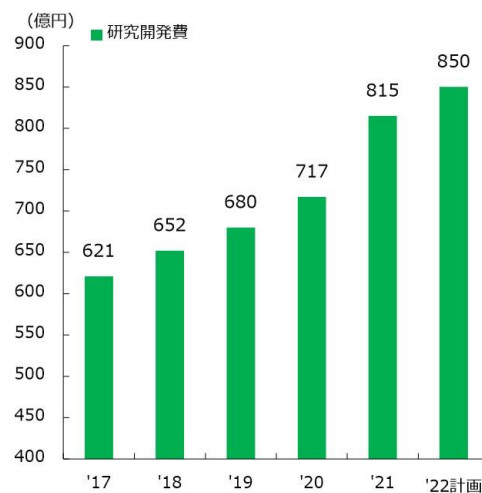
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### 研究開発費



<参考> 上期実績の推移

(億円)	2018年度	2019年度	2020年度	2021年度	2022年度
設備投資	398	540	633	648	950
減価償却費	357	461	503	557	679
研究開発費	317	336	330	387	476

24

Please refer to page 24. Actual results of capital expenditures, depreciation and amortization, and research and development expenses are shown.

There are no changes to any of the annual plans.

To further expand our business, in the air conditioning business, we will invest in increasing production capacity and strengthening product development for heat pump heater in Europe, building a third plant in India, increasing capacity at our Huizhou plant in China, and expanding our plant in Mexico.

In the chemicals business, we intend to aggressively invest in capacity expansion in China and the US to meet growing demand for semiconductors and batteries.

That's all from me.

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## Question & Answer

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**Sakamoto [M]:** We will now move on to the question-and-answer session. Mr. Sasaki from Mitsubishi UFJ Morgan Stanley Securities, please.

**Sasaki [Q]:** I'm Sasaki from Mitsubishi UFJ. I have two questions regarding cost escalation and price pass-through. I believe you have achieved a very good price pass-through in H1 of this fiscal year and in the forecast for the full year. First, please tell us how you were able to achieve price pass-through by region and product. I believe you will continue to promote price pass-on in H2, but please tell us how you intend to proceed by region.

**Togawa [A]:** In all regions and for all products, we have been aggressively raising prices this year through strategic selling price measures, and for H1, we implemented them as initially planned. We will continue with this plan for H2 of the fiscal year and plan to raise prices further from this October onward. Matoba will explain the figures by region.

**Matoba [A]:** My name is Matoba. This fiscal year, we have basically raised prices in the air conditioning business and in all regions from April to May. The average level was 4% to 5%. The additional price increase will be rolled out on a regional and item-by-item basis and will be scheduled from July through October.

The regions are Japan, Europe, the Americas, and Asia, each at a few percent level. Higher levels are planned for the Americas due to the environment in which it is easier to raise prices.

**Togawa [A]:** We cannot answer the regional figures. Regarding the overall sales price measures, what we have done from April to May and how we intend to increase to JPY165 billion for H2 are as I have just described.

**Sasaki [Q]:** I understand. Thank you. My second question is also about price. I believe that inflation has cost you quite a bit over the past two years. I think some of the costs are being taken out of the market quite a bit in relation to the price. The Fed is tightening, and if their strategy works in the future, I think inflation will subside and the cost of many things will come down. In fact, I think prices for ocean freight, copper, aluminum, etc. are coming down.

If so, will Daikin be able to maintain this price and benefit from the lower cost of components? Is your company's pricing strategy basically to maintain prices? I know there are many things you don't know about the future, but please tell us what you think now about what will happen if inflation subsides.

**Togawa [A]:** For one thing, it is naturally assumed that it will be difficult to raise selling prices due to the current economic slowdown, such as sluggish capital investment and declining consumer confidence. When inflation subsides, we will naturally have to consider whether we will be able to take the same sales price measures that we have been taking for the past two years.

On the other hand, I think we must also consider how to maintain a profitable market with added value. The question of whether we can make the market cheap and unprofitable is an issue that we are always aware of. In this sense, I believe that providing differentiated products and services that capture the changing needs of the current era will be an important issue for the future.

To be a bit more specific, it is a question of how we propose value-added products, including environment-related products that are carbon neutral or low-carbon, for example. I believe that air quality, ventilation, etc., which has become a need due to COVID-19, is one such example.

I think it will become increasingly important in the future to create a market for the kind of differentiated products that are truly desired by customers. It is my opinion that sales price measures should be considered in combination with this.

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**Sasaki [Q]:** Am I correct in understanding that for the future, whether inflation or deflation, it is basically important for Daikin to capture the need for added value, and if this can be achieved, it will compensate for the cost?

**Togawa [A]:** Yes, that's right. Mineno, the Vice President in attendance today, is currently in charge of Asia, Oceania, and India, which is exactly the market we are trying to transform into a more valuable inverter market. This is a market that currently still has a lot of non-inverter volume zones, and where Chinese and Korean manufacturers are also coming in quite enthusiastically. He will provide some additional information of what I just said, which is exactly how we do these markets now.

**Mineno [A]:** I am Mineno. As you say, I feel that the economic recession has already begun. Therefore, I believe it will be difficult to increase selling prices as we have seen in the past two years.

However, as you know, the middle class and affluent populations are growing in Asia, so there are new needs in those areas. In particular, electricity and other costs have risen very much due to inflation. We would like to offer something that meets those needs. That is the shift to inverter, and by promoting it, we will bring out products that match our customers' needs.

We are also strengthening our factories and R&D. Up to now, we have been developing a common global model and using similar components to reduce costs through economies of scale. We will continue to do so, but we would like to take it a step further and create products that are suited to the local market.

For example, nearly half of the room air conditioners are sold in Asia, so we will create something that will match there. We will not develop products for the whole world, but rather we will seize the needs specific to Asia, such as humidity and high temperatures. We intend to roll out such products to the affluent and middle class as appropriate and raise prices accordingly.

This is a very high-volume area, so prices must be competitive. We will also be competing with Chinese and Korean manufacturers, so we will be conscious of this and fight with firm cost reductions in this volume zone as well. We are doing this kind of two-sided operation.

I believe that the key to future price increases will be to provide products that meet the needs by strengthening R&D, along with reinforcing our plants and capacity.

**Sasaki [M]:** I understand very well. Thank you very much.

**Sakamoto [M]:** Thank you. Next, Mr. Isayama from Goldman Sachs, please.

**Isayama [Q]:** Thank you. I am Isayama from Goldman. First question, I would very much like to know more about North America. As was the case in Q1, Daikin NA's sales growth rate for H1 was 27%, which I think is overwhelming compared to your competitors. We believe that 21% for the year is still a very strong figure.

Can you please break down this 27% and 21% for H1 and full year into growth rates for selling price, distributor acquisition, and organic volume? I think it is wonderful that your company has been able to achieve overwhelmingly strong results while other companies are suffering from supply constraints and other problems.

With business conditions worrisome, how long will this performance continue? While I feel that we do not need to worry about distributors and such over the next fiscal year since they are individual to your company, I also feel that we have to anticipate a phase where organic volume will be negative.

In addition, I would appreciate it if you could touch on the North American business and at what point it will slow down or if it can be overcome.

**Togawa [M]:** Miyazumi will tell you about the figures.

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**Miyazumi [A]:** I would like to talk about the US market and our strategy for measures for future growth. Regarding selling prices, we certainly believe that it is easier to implement measures to penetrate selling prices in the US society than in other parts of the world.

However, since inflation is at a fairly high level, it is natural that purchasing power for short-term consumption materials will decline. Housing rates are also rising, which is a bit of a headwind.

However, as we have already explained, we intend to maintain some high prices by selling high value-added products.

How far can we grow organically? As I think I have told Mr. Isayama before, Goodman, or DNA, is steadily expanding its production, supply capacity, and sales channels, and economies of scale are working well.

Macroeconomic headwinds will intensify. In this context, we believe that by expanding our sales channels and production capacity, and by starting operations at our plant in Mexico, we will be able to grow organically to some extent, although it is difficult to say to what extent.

Another challenge is the solution. In short, it is a business model that acquires customers, sells to them, and then continues to earn money. This is an area that Applied, rather than Goodman, is responsible for. I believe that this and other measures will be taken to increase profitability in North America.

**Togawa [A]:** With interest rates rising, the US housing market is certainly becoming tougher than it has been in the past.

At the same time, however, demand for environmental premium products is growing considerably as environmental regulations are tightened. This past October, DNA's performance has continued to make very solid progress, exceeding its budget.

How far will this go after November? In conclusion, even in the midst of a challenging US housing market, opportunities are increasingly coming our way for environmental premium products and businesses that take advantage of inverters, heat pumps, and low GWP.

We will strengthen production in these areas. Regarding the sales network, we are aggressively developing acquisitions now as well. We believe that we can further expand our business in the US by further strengthening our dealer network, including through acquisitions.

**Isayama [Q]:** Thank you very much. Quantitatively, in the US, there was a price increase of about 10% or so, another 10% or so growth due to acquisition effects, and the rest is organic growth. Is it my understanding correct that H1 has grown, but you want to make a profit in H2 by introducing the products you just mentioned?

**Miyazumi [A]:** Yes. That's right.

**Isayama [Q]:** Understood. Thank you. Secondly, I would very much like to ask something similar about China. It is about residential multi-split air conditioners in China.

I remember that residential multi-split air conditioners dropped nearly 20% in Q1 but recovered significantly in Q2. I think Mr. Miyazumi mentioned earlier that it is 97%, so I think it is recovering a little over 10%. Can this be considered a volume effect?

Since you mentioned 100 for the year, I think that means you are factoring in single-digit gains in H2 as well. Is this a volume effect or a selling price effect? There is also talk about business confidence in China. Do you believe that you can maintain a positive figure through selling price, or are your measures working and volumes still growing?

I would like to know which of these factors, primarily, is responsible for the continued growth of residential multi-split air conditioners in this difficult environment.

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**Miyazumi [A]:** Your question is whether it is a quantity effect or a price effect. In H2, China is experiencing a very strong economic slowdown. The real estate recession has also become quite severe. First, by selling high value-added items, we will sell a larger quantity while maintaining some price.

In order to sell more, we need to get information on inquiries quickly. Since the overall pie is shrinking due to the economic slowdown, the first step is naturally to capture market share.

On top of that, prices will be basically maintained. We will monitor market and customer conditions in detail and raise prices in a flexible manner.

**Isayama [M]:** I understood very well. Thank you very much.

**Sakamoto [M]:** Thank you. Mr. Mizuno from UBS Securities, please.

**Mizuno [Q]:** Thank you. The first is about the overall feeling. Can you tell us a little more about the reality of the market environment as the Company perceives it now? Looking only at the chart of operating profit for H2, the effect of a 4% to 5% price increase has been factored in. Assuming that a 1% to 2% increase in market share effect is factored in, the assumption would be that volume will remain flat to slightly increase or decrease in almost all major regions except the Americas.

On the other hand, President Togawa commented that the business environment is changing. Should we recognize that the environment is actually deteriorating rapidly in volume terms? Or is this the message that even if the market does not grow, the Company wants to grow through corporate efforts? I would like you to distinguish between the two.

Also, there was no review of FUSION 25, which was quite anticipated in the market. I am wondering if you could comment with an eye toward FY2023 as well.

**Togawa [A]:** Okay. This question by Mr. Mizuno is one of the perspectives that we, the management team, are working on as a really important perspective. We have been aggressively raising prices through strategic sales price measures, but I wonder if we are really winning in terms of volume or market share. While keeping an eye on the selling price, we have been working to increase sales and market share to see if we can also increase the volume at the same time.

I think we are doing a pretty good job of developing our selling price policy. We have managed to maintain our market share, but we are now developing measures for each region to raise it to a higher level. That is the reality.

**Mizuno [Q]:** I understand. In other words, at this stage, it is difficult to say whether positive growth will be possible in the next fiscal year, although you can say that you will do your best.

**Togawa [A]:** No, no. That is the overall picture, but as I said earlier, each region has its own risks and opportunities.

We are raising the value of our products by taking advantage of our strengths in each region, while increasing volume and market share, and developing sales price measures.

Since Europe is the place with the strictest environmental regulations, we will further expand sales of heat pump heating systems and other products that take advantage of energy-saving features, such as inverters.

Today, we have people in charge of our domestic AC business and our Asia/Oceania business. We will have two people talk to you about regional developments.

**Funada [A]:** My name is Funada, and I am in charge of Japan. In Japan, customers are becoming more and more conscious of energy saving in products due to rising energy costs and the trend toward carbon neutrality.

In this context, we are also focusing on energy saving in packaged air conditioners for commercial use and are promoting energy-saving proposals that do not cost a lot of money, such as remote control and operation control.

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In addition, CFC inspections are required for air conditioners in Japan due to the CFC Emission Control Law. In the past, customers had to perform inspections by manpower, but we are now proposing a service in which we monitor remotely and do not burden the customer with man-hours.

In addition, with the progress of ZEB and ZEH in the world, customers themselves are becoming more and more aware of energy conservation. How much electricity is being charged by region. Electricity prices are not uniform in each region, but are adjusted, and the price of electricity is also changing in each province. We make detailed proposals to users and distributors and offer a variety of proposals on how to get the most out of each model.

In cold regions, the energy-saving and heating performance of heat pumps is improving. We are trying to increase demand by explaining the difference between this and combustion heating and offering total value for money.

Also, in our earlier explanation, we mentioned subscription. For customers who cannot afford a large initial cost, we listen to the customer's needs and individually set an amount that the customer can pay on a monthly basis and offer a maintenance package as well. In addition, the government will be providing subsidies in the form of supplementary budgets, and we are working with distributors to propose these subsidies to users to encourage them to take advantage of these subsidies. In this way, we are now moving forward to capture demand while maintaining prices.

**Togawa [A]:** In terms of volume and market share, in Japan, our share of the residential air conditioner market increased to over 21% in H1. In addition, we are currently working on a specific plan to become the overwhelming number one manufacturer of residential air conditioners, aiming for a market share of around 30%.

As for commercial air conditioners, while our rivals experienced supply shortages last year, we did not experience any supply difficulties. Because of these factors, we were able to increase our market share overwhelmingly, and we took a market share in the 45% range. In Q1 and Q2, the market share dropped a little as rivals also became more supply-oriented, but still maintained a high market share of 45%. For commercial air conditioners in Japan, we are working to increase our market share to about 50%.

**Mineno [A]:** Asia is a growing market, so it depends on where you see it. Some countries were affected by the lockdown in 2020 and 2021. We had lockdowns in India, Malaysia, Vietnam, and many other countries, from which we are now recovering V-shaped. We have seen a huge increase in volume this year, and I believe we are back to our pre-COVID-19 figures for 2019. We also expect to see double-digit growth next year.

We have four factories, so this year and last year we were able to handle the supply problem better than other companies. Especially at our main factory in Thailand, we have been dealing with suppliers of various parts for almost 40 years, and they have dealt with us well. In this way, we have increased our market share significantly throughout Asia. Naturally, other companies have also been rebuilding their supply systems, but they are still experiencing problems such as shortages of some parts.

Against this backdrop, we have been fortunate to increase our market share. Next year will be even tougher, but in the midst of this, GDP is expected to rise by 5% to 6% on average, although this will vary from country to country, and we will take advantage of this growth.

As I mentioned earlier, the wealthy and the middle class are growing, and we would like to focus on them as well. We expect double-digit growth again next year.

**Togawa [A]:** In Asia, we have been focusing on increasing the number of units and market share, as well as on sales price measures. As for Asia, we are trying to be number one in all countries.

The only countries where we did not achieve the number one market share last year were Thailand and India. We are number one in all the rest of the countries. We plan to be number one in India this year, and I think we can achieve this. Unfortunately, due to various issues, we have not yet reached the number one position in Thailand and are expected to fall slightly short again this year. We are taking steps now to secure the number one market share in all regions. I hope this answers your question.

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**Mizuno [Q]:** Thank you for your detailed explanation. Sorry, one more thing please. Let me ask you about India, which you have just brought up. I imagine that sales will exceed JPY100 billion this fiscal year. I would like to ask when and to what size the Company imagines sales will be. Will it follow the same trajectory as the China business? The China business had sales of about JPY120 billion 10 years ago, around FY2010. India is in the same situation, 10 years behind. The population is on track to overtake China's next year.

On the other hand, looking at the air conditioning industry alone, the penetration rate is over 60% in China and still 10% in India. But in China, commercial air conditioner sales have always been high, and India starts with room air conditioners.

The China business is now around JPY400 billion, but when will the India business reach this scale? We hope you answer the question.

**Togawa [A]:** Mineno, who is in charge, will answer in detail later. When we look at the future of the global market, we believe that India is the market with the greatest growth potential. I believe that the country has great potential for this. It is not just a population problem as you just mentioned, but the middle class and wealthy class are growing rapidly. Furthermore, various investments from around the world are now coming into India at a furious pace. That being said, I think this is a market that really has great potential.

For myself, I think the Indian market has the potential to grow even more than the Chinese market. We will provide the figures later. I had a brief conversation with the representative from India the other day, and I believe that a challenge of around JPY200 billion in sales is possible in the future.

**Mineno [A]:** As you say, we expect to exceed JPY100 billion this year. We are number one in room air conditioners alone, with over 1 million units, and we are also overwhelmingly number one in commercial air conditioners. Going forward, at the current exchange rate, we have set a goal of JPY200 billion by 2025.

Toward that end, as I mentioned earlier, we will strengthen our production capacity. In addition, we are planning to start local production in January of next year, as the compressor will also be subject to tariffs. By doing so, we hope to accelerate the process at once.

A system called PLI, which will be incentivized in 2030, started working last year. India's national target for domestic operations is 24 million units, with 16 million units to be exported to China, for a total of 40 million units to be produced. We have also applied for incentives based on this. We will be receiving a very large number of incentives over the next five years.

Therefore, as the president has just said, I think it will grow more rapidly than in China. I believe that the market will be such that air conditioners and chillers for commercial buildings as well as residential use will grow.

Incidentally, the current penetration rate of room air conditioners is still less than 10%, so we can expect significant growth in the future.

**Mizuno [M]:** Thank you very much.

**Sakamoto [M]:** Thank you. Next, Mr. Maekawa of Nomura Securities, please.

**Maekawa [Q]:** I'm Maekawa from Nomura Securities. Thank you very much for your explanation. I would like to know again about the medium- to long-term approach. As you said, there are various investments in motion, and I believe that capacity will increase between 2024 and 2025. Earlier, we also heard a sales figure of JPY200 billion for India. How much room do you see now to increase the volume when looking at the whole world? What are your projections for sales in FY2025?

In addition, while there is a sense of slowdown in the demand environment, I believe that falling costs and other factors are also positive factors. Three years from now, toward the second half of FUSION, the speed of profit growth

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will stagnate once in the next fiscal year, but I wonder if it will grow again after that. Or do you intend to continuously increase profits? I would like to know more about this area as well.

**Togawa [A]:** We are in the process of finalizing the plan for the second half of FUSION 25, including the quantity base. I cannot give you a specific number at this stage. In any case, we are committed to further growth.

As for the FUSION 25 figure we initially set, I would first of all like to make a major revision, including for FY2023. I personally think that's a possibility. Above all, as I mentioned earlier today, carbon neutrality and deoxygenation have been spreading worldwide, and we have very high expectations.

We have identified three growth strategy themes for FUSION 25.

One is to take carbon neutrality as an opportunity. The second is how to incorporate emerging air and ventilation needs. Furthermore, how to expand the solution business using AI and data, as we move from products to services and from ownership to use.

I believe that the three themes of the growth strategy are not mistaken, and I believe that we have been able to grow past two years based on this growth strategy. We're going to do more in H2 to further strengthen for growth, including the volume, and we're feeling the response to that.

Sales have increased due to the foreign exchange effects, and this year the operating margin is slightly down, but we would like to bring it to 12% operating margin. We have no intention of changing that goal at this time. We would like to work to further increase revenues. That's all from me.

**Maekawa [Q]:** As investments are launched in the future, the fixed cost burden will naturally increase. Can such burdens be recovered quickly?

**Togawa [A]:** I mentioned earlier about the investment in the air conditioning plant. In fact, we are planning to proceed with a major capital investment in the chemical plant as well. I don't have the exact figures on hand, but roughly speaking, I estimate that capital investment in factories will probably amount to JPY150 billion to JPY160 billion from this year through 2023, 2024, and 2025. One of the challenges is how to reap the rewards.

Our approach is to prepare for production ahead of time and take advantage of opportunities. As you say, it would be a big problem if sales do not progress even though the production system is in place. We are now in the process of strengthening the sales system as well as the production system, and at the same time, we are preparing a system that will enable us to launch products vertically as quickly as possible after they are developed.

In the US, as I mentioned earlier, we are further strengthening our sales network through acquisitions, and at the same time, we are moving ahead to strengthen our production capabilities.

We are also trying to increase profitability through variable cost reductions, fixed cost reductions, further selling price measures, etc.

**Maekawa [M]:** I understand. Thank you very much.

**Sakamoto [M]:** Thank you. Next, Mr. Sano of JPMorgan Securities, please.

**Sano [Q]:** Thank you. This is Sano from JPMorgan. I have two questions. The full-year sales plan for China is 100% of the previous year's level in local currency terms. Now that H2 of the fiscal year has actually begun, I am sure there are many variables, but do you feel that you will achieve your goals?

Also, you made a comparison between China and India earlier. While the stock market sees your company's China business as somewhat of a risk, I think there is a gap because you see it as an opportunity for your company, such as the new Huizhou plant. Are you in a situation where you need to restructure the strategic positioning of China for the next fiscal year and beyond?

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**Togawa [A]:** I think it is extremely difficult to know how to look at the Chinese market. I believe that in China, it is even more important than in other regions, to be able to identify changes in the business environment and to be able to respond to those changes with speed.

There are many ways to look at it. For example, the renewal market is growing. How will these markets change?

Furthermore, China is a market that has been taking carbon neutral measures with great enthusiasm. Opportunities are emerging for factories and buildings to develop markets in the wake of carbon neutrality.

Also, energy management has become much more demanding. We were among the first in China to connect all of our VRV, multi-split air conditioners for buildings, that call intelligent VRV. It becomes much important that we provide customers with high value-added products, including energy management, by utilizing the connected data. I believe this is a market that still has potential, which can be expanded through such approaches.

I mentioned both sides, and I think it is important in the Chinese market to be able to make quick moves in response to changes in the environment while keeping an eye on both sides.

**Sano [Q]:** Thank you very much. Second, please tell us about the United States. I would like to know the status of profit margins for Goodman in the US in this H1 and the outlook for the full year. I also have the feeling that your company's strategy, including the IRA, will be much more alive with regard to refrigerants, considering the Montreal Protocol's crisis management system.

I would like to know how you will reap the tailwind of your future strategy, including the feel of the FIT system launch, in relation to profitability.

**Miyazumi [A]:** You mean Goodman in the US. I remember that the profit margin was roughly in the 11% range in H1. For the full year, we expect a slight decline due to the nature of the air conditioner business, so we think the sales will be at the level of whether or not 10% can be achieved.

**Togawa [A]:** In the US, I think it is a very important issue how to strategically respond to the energy-saving environmental regulations for refrigerants that you just mentioned. Our advocacy activities have also been quite active in the United States. In conclusion, regarding refrigerant, I am now planning to attack the US market with R32.

Its rival is 454B. I believe that it is becoming very important to consider the development of this area while also considering the creation of new friends in this area.

However, as I mentioned earlier, the number of states that are enthusiastic about energy conservation and environmental regulations is increasing, although the movement differs somewhat from state to state. California is a forward-thinking state, but other states are increasingly taking this kind of approach.

I am not sure what will happen to the administration, but I do not think the major trend of the current carbon neutral movement will change.

Therefore, I think it is very important for us, more than any other manufacturer, to be ahead in inverters, heat pumps, and low GWP in the US market.

When we originally expanded into the US market, we were trying to change the US market by using our environmental technology as our strength. We were trying to convert the existing non-inverter to inverters and unitary market to ductless and heat pumps.. That is exactly what is happening now. We are going to turn the US market into such a market as a great opportunity.

**Sano [M]:** Thank you. That's all from me.

**Sakamoto [M]:** Thank you. We have received many other questions, but due to time constraints, we apologize, but we will conclude with the next question. Mr. Tai of Daiwa Securities, please.

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**Tai [Q]:** This is Tai. On pages 15 and 17, we have tables showing demand forecasts for the US and Europe.

Comparing your demand assumptions as of May with your current assumptions, have there been any changes in the situation in the US and Europe? Just looking at the figures announced this time, I don't think demand has gotten worse.

**Miyazumi [A]:** I don't think there has been much change in demand in Europe and the US since the beginning of the period. However, given the current business climate, we feel that there is a possibility of a slight downward swing from the forecast announced this time.

**Tai [M]:** I understand. Thank you.

**Sakamoto [M]:** Thank you. This concludes the financial results briefing. Thank you everyone for staying with us until the end of the event.

[END]

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1. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
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